

TIL Limited
July 6, 2018
Ratings

Facilities	Amount (Rs. crore)	Ratings¹	Rating Action
Long-term Bank Facilities	145.00 (reduced from 166.70)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long/ Short-term Bank Facilities	200.00	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	345.00 (Rupees Three Hundred and Forty five crore only)		

Detail of facilities or instrument in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of TIL Limited (TIL) continue to draw strength from the experience of the promoters with long and established track record of the company, manufacturing and technical collaboration with established international players, moderate order book position, reputed clientele and consistent source of revenue from maintenance and repair contracts. The ratings also take into account the moderate profitability and coverage indicators. The ratings are however, constrained by the working capital intensive nature of operations with elongated operating cycle, exposure to fluctuation in foreign exchange and risk associated with the ongoing capital expenditure project. Ability of the company to sustain operating profitability, effective management of working capital leading to reduction in operating cycle and successful completion of the ongoing project within the estimated time and cost are the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Long and established track record with experienced promoters***

TIL is an established player in providing technology intensive equipment for the infrastructure sector. The company, over the last seven decades, has consistently introduced new products in the material handling and construction equipment. The current promoter Mr. Sumit Mazumder, possess rich experience in the industry and is supported by a team of qualified personnel.

Manufacturing & technical collaborations with leading international players

TIL, over the years, has entered into long term manufacturing and technical alliances with leading equipment manufacturers across the globe to offer superior products to its customers. These alliances have given technological parity to the company as most of the other domestic construction & material handling equipment manufacturers have also tied-up with renowned international technology providers.

Moderate order book position albeit good clientele and wide service network

The aggregate value of orders in hand was Rs.130.06 crore as on May 17, 2018, executable entirely in FY19 (refers to the period April 1 to March 31). The client portfolio of the company comprises reputed public sector & private sector entities. With a network of four regional offices, 60 branches & 20 product support centres in India and a subsidiary in Singapore, the company offers the required service back-up to support its product line.

Consistent source of revenue from maintenance & repair contracts and sale of component & spare parts

TIL, while selling its products, also enters into long term maintenance and repair contracts with its customer, thereby providing stable and consistent source of future income. It derives income of around 20% of gross sales from sale of components & spare parts.

Moderate profitability and coverage indicators

On a consolidated basis, total operating income increased by about 8% in FY18 with increase in sales of equipment and spares. PBILDT margin, which had improved significantly in FY17, remained relatively stable in FY18. The margin was impacted on account of an increase in employee cost for development of new products. The company expects to derive benefit from such expenditure in the current year.

TIL had utilised the sales proceeds of the Caterpillar Inc. (Caterpillar) dealership business in FY17 to reduce debt and the same resulted in lower borrowings in part of the year. This, in turn, resulted in lower interest expense during the year.

¹Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

However, the short term borrowings increased significantly towards the end of FY18 to finance increase in working capital requirement arising out of significant increase in sales in Q4FY18 (Rs.123 crore as against Rs.98 crore in Q3FY18). Interest coverage (PBILDT/Interest) remained moderate at 2.10x in FY18.

On a standalone basis, net sales in FY18 improved by about 27% as compared to FY17 and the company reported an increase in operating profit to Rs.52.24 crore during FY18 as against Rs.39.64 crore during FY17. PBILDT improved mainly due to export of high margin spare parts to subsidiary company in Singapore.

Although the company had no significant term debt in its books as on March 31, 2018, consolidated overall gearing ratio deteriorated to 0.69x as on March 31, 2018 from 0.31x as on March 31, 2017. The deterioration was mainly on account of increase in short term borrowings which led to increase in overall debt of the company.

Stable demand prospects in the medium term

Various government initiatives including emphasis laid on fast development of physical infrastructure, with increased budgetary allocation in FY19 and also the thrust towards modernization of the port are likely to yield visible results going forward and improve the demand for construction and material handling equipment.

Key Rating Weaknesses

Working capital intensive nature of industry and high operating cycle

TIL requires high level of working capital to support and maintain its large inventory of raw materials, finished goods as well as stores & spare parts. The company also had slow-moving inventory of about Rs.25 crore as on Mar.31, 2018 (of which Rs.10 crore is expected to be realised in Q2FY19). Inventory period was high at 269 days in FY18.

Further, the collection period remained high at 102 days in FY18. The average utilisation of fund based working capital limits was moderate at about 68% in the 12 month ended May 31, 2018. However, the utilisation has been increasing since January 2018 with increase in sales.

Exposure to foreign exchange risk

The major raw materials/inputs required by TIL are high quality steel, engines, chassis for auto mobiles, valves, axle, hoist units, hydraulic Ram and cylinder etc. A large part of the material requirement is met through imports. This exposes the company to risk of foreign exchange fluctuation.

However, it mitigates the forex risk by hedging large part of its exposures. As on Mar.31, 2018, it had an unhedged forex payable of Rs.36.86 crore and unhedged forex receivable of Rs.8.52 crore.

Risk associated with the ongoing project

TIL is setting up a new manufacturing facility for material handling and construction equipment at Vidyasagar Park, Kharagpur at an estimated project cost of around Rs.110 crore. The project is proposed to be funded through debt of Rs.80 crore (already sanctioned) and Rs.30 crore from internal accruals/sale proceeds of land owned by the company in Sahibabad, Uttar Pradesh. The project is presently at a nascent stage. Sale of land in Sahibabad within the envisaged timelines to fund part of the construction cost and completion of the project within the estimated time and cost are key rating sensitivities. The project is expected to be completed in FY20.

Analytical approach: Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

About the company

TIL, incorporated in 1944, has been in operation for more than seven decades and is currently engaged in manufacturing and marketing of equipments for material handling, lifting, port & road building solutions with integrated customer support and after-sale services. The manufacturing facilities are located at Kamarhatty (near Kolkata) and Kharagpur in West Bengal.

In April 2016, TIL hived off its dealership business of Caterpillar through sale of its subsidiaries Tractors India Private Limited (TIPL) and Tractors Nepal Private Limited (TNPL) and specific assets related to Caterpillar business in TIL Overseas Pte Limited (TILO) for a consideration of Rs.350 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
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Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	322.08	348.86
PBILDT	41.68	43.44
PBT	6.55	11.32
PAT	24.74*	7.58
Overall gearing (times)	0.31	0.69
Interest coverage (times)	1.77	2.10

*after profit from discontinued operations and exceptional write offs

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure 2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	145.00	CARE BBB+; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	200.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Short Term Instruments-CP/STD	ST	-	-	-	-	-	1)Withdrawn (31-Mar-16)
2.	Fund-based - LT-Cash Credit	LT	145.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (17-Aug-17)	1)CARE BBB+; Negative (19-Dec-16) 2)CARE BBB+ (Under Credit Watch) (03-May-16)	1)CARE BBB+ (31-Mar-16)
3.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (19-Dec-16) 2)CARE BBB+ (Under Credit Watch) (03-May-16)	1)CARE BBB+ (31-Mar-16)
4.	Non-fund-based - LT/ST-BG/LC	LT/ST	200.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (17-Aug-17)	1)CARE BBB+; Negative / CARE A3+ (19-Dec-16) 2)CARE BBB+ / CARE A3+ (Under Credit Watch) (03-May-16)	1)CARE BBB+ / CARE A3+ (31-Mar-16)
5.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable (17-Aug-17)	1)CARE BBB+; Negative (19-Dec-16) 2)CARE BBB+ (Under Credit Watch) (03-May-16)	1)CARE BBB+ (31-Mar-16)

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